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SUBJECT: LEBANON: HOW TO HELP LEBANON FINANCIALLY NOW

Classified By: Ambassador Jeffrey Feltman for Reasons: Section 1.4 (b) and (d).

SUMMARY

11. (C) According to Finance Minister Jihad Azour, Lebanon's deficit situation is under control because tax revenues are up, but that the GOL faces problems paying its foreign currency debt in the first quarter of 2008. Contributing to Lebanon's first quarter debt crunch are the problems of reduced investor confidence and the GOL's inability to issue new foreign-currency debt because that requires parliament's approval and the parliament has not functioned for 14 months. Asked for specific suggestions for what the international community could do now to help Lebanon, Azour had suggestions for actions that Saudi Arabia, Kuwait, UAE and Egypt could take in the short term that would give the Lebanese government a financial boost at a politically sensitive time (paras 7-10). He asked also that the USG consider offering a guarantee on an upcoming Lebanese USD 960 million Eurobond issue. End Summary.

A USG GUARANTEE OF GOL DEBT ESSENTIAL

12. (C) The Charge, accompanied by Econoff, met with Finance Minister Jihad Azour and his advisors Rola Rizk and Nadine Abou Khaled on December 28. Azour said that Lebanon's deficit situation was under control because tax revenues were the highest in 12 years. However, Lebanon has close to USD 3 billion debt coming due in 2008, 50 percent of which comes due by the end of the first-quarter.

13. (C) Most notably, Azour said there is a USD 960 million Eurobond payment due in the first quarter of 2008 that he wants to refinance. However, the GOL does not have the legal authority to issue any new foreign currency debt because parliamentary approval is required and the Lebanese parliament has not met for 14 months due to the ongoing political impasse. USD 860 million of the payment is principle and the remaining USD 100 million is interest. Only the USD 860 can be rolled over. The USD 100 must be paid by the end of March 2008.

14. (C) Azour suggested the USG consider guaranteeing this USD 960 million Eurobond issue. A USG guarantee would lower borrowing cost and help attract investors. (Note: The GOL floated a similar idea previously. One problem that arose when this was considered before is that USG rules require

budgeting for the costs to the U.S. and payment of that cost by the beneficiary country. For example, if the U.S. guaranteed a USD 1 billion ten-year government debt, the USG would have to pay a budget cost of about USD 340 million in year one and Lebanon would have to pay that cost. End Note.)

¶15. (C) Azour also asked about a guarantee from the Overseas Private Investment Corporation (OPIC) on the GOL debt, similar to what OPIC provided with some foreign currency debt held by Egypt. (Comment: In Embassy's experience, to do this the GOL would need to partner with a U.S. corporation in order to receive a guarantee from OPIC. OPIC has provided a USD 120 million guarantee on a Citibank operation in Lebanon and we expect would not be receptive to taking on another huge project in Lebanon at this time. End Comment.)

MORE FINANCIAL AID NEEDED FROM ARAB STATES

¶16. (C) Azour mentioned the GOL's importance of the USD 2 billion pledged at Paris III by Arab nations. He suggested that those states provide more funding, preferably in the form of grants rather than loans, which would require Lebanese parliamentary approval. However, he said that the GOL would accept loans as well. He had specific suggestions for several countries in the region.

¶17. (C) SAUDI ARABIA: Azour said Saudi Arabia pledged over USD 1.1 billion to Lebanon as part of its Paris III commitment (Note: USD 100 million of the donation is a grant for budgetary support and the remaining USD 1 billion is in the form of a loan, intended for project financing. End Note.) However, it has not been disbursed because new legislation is needed in order for the GOL to utilize the USD 1 billion loan. Because parliament is currently inactive and will be officially closed as of tonight (12/31), the needed legislation has yet to be introduced and therefore the money is frozen. Azour suggested the USG ask Saudi Arabia to re-program its USD 1 billion pledge into a grant or some other form of payment that does not require parliamentary approval so that the GOL can utilize the donation now.

¶18. (C) KUWAIT: Azour mentioned that Kuwait did not make a donation at the Paris III conference. He suggested that Kuwait provide a USD 500 million grant or loan. Kuwait provided some funds after the 2006 war but made no pledge in Paris III. Azour noted that Lebanon was the first Arab country to condemn the invasion of Kuwait by Saddam Hussein.

¶19. (C) UAE: Azour also suggested the United Arab Emirates (UAE) provide a \$500M grant or loan. Unlike Kuwait, UAE both made and disbursed a Paris III pledge for USD 300 million but might be willing to provide more to help Lebanon during the difficult first quarter.

¶110. (C) EGYPT: Egypt has signed an agreement to provide Lebanon natural gas, which will help the GOL save close to USD 200 million. Azour suggested that Egypt deliver the natural gas earlier than expected and that Egypt allow a grace period for payment.

ADDITIONAL FINANCING NEEDS IN EARLY 2008

¶111. (C) In addition to the USD 860 million dollar principle on the Eurobond debt, Azour said there is USD 100 million of interest on the debt that cannot be rolled over and that must be paid by February 2008. The GOL has close to USD 240 million of Paris II loan payments due the first-quarter of 2008, which it is unable to rollover without parliamentary approval, Azour said. He added that Lebanon will also have to pay close to USD 300 million in Electricite du Liban (EDL) costs for fuel and debt servicing in early 2008.

¶112. (C) The EU recently made a USD 350 million dollar donation to Lebanon. This will finance part of the USD 640 million needed in first-quarter 2008. Therefore, the GOL has a shortfall of around USD 300 million for the first-quarter

of 2008. Even after the first quarter, there will be an additional USD 1.5 billion due that the GOL will be unable to handle without international community support.

ECONOMIC CRISIS WILL HELP THE OPPOSITION GAIN SUPPORT

¶13. (C) Azour mentioned that he is receiving pressure from March 14 members to do something to find a solution to the economic crisis. The majority realizes that it will be blamed if an economic collapse occurs next year and that March 8 opposition would use such a situation to its advantage.

COMMENT

¶14. (C) The best first step in a solution to the looming economic crisis is a resolution to the political impasse. If the market views Lebanon as a politically stable country, it will lower the Lebanon's borrowing cost and attract more investors. That is seen as increasingly less likely to occur in the first quarter of 2008, so some of the immediate assistance that Azour suggests may help Lebanon get through a difficult political period. We suggest that Washington consider whether President Bush and other USG officials traveling in the region in the next few weeks might be able to raise the need for monetary support to help stabilize the Siniora cabinet and prevent a financial crisis. End Comment.
FELTMAN